

CITY OF HARTLEY

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2015

## TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-6
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A                      7-8
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	B                      9-10
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	C                      11
Notes to Financial Statements	12-23
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	25
Notes to Other Information - Budgetary Reporting	26
Schedule of the City's Proportionate Share of the Net Pension Liability	27
Schedule of City Contributions	28
Notes to Other Information – Pension Liability	29
Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances – Nonmajor Governmental Funds	1                      31
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances – Nonmajor Proprietary Funds	2                      32
Schedule of Indebtedness	3                      33
Note Maturities	4                      34
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	5                      35
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36-37
Schedule of Findings	38-40

CITY OF HARTLEY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Clayton Pyle	Mayor	January, 2016
Kevin Snider	Council Member	January, 2016
Gina Wiekamp	Council Member	January, 2016
Ron Hengeveld	Council Member	January, 2018
Brad Meendering	Council Member	January, 2018
Mary Westphalen	Council Member	January, 2018
Patty Anderson	City Clerk/Administrator	Annually
Dennis Cmelik	Attorney	Annually

# HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
JASON K. RAVELING  
TAMMY M. CARLSON, C.P.A.  
STEVE C. CAMPBELL, C.P.A.  
RICHARD R. MOORE, C.P.A. (RETIRED)  
WESLEY E. STILLE, C.P.A. (RETIRED)  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W. J. HUNZELMAN, C.P.A. 1921-1997

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
Hartley, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley as of June 30, 2015, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

## Emphasis of a Matter

As disclosed in Note 6 to the financial statements, City of Hartley adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

## Other Matters

## *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hartley's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein), and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the budgetary comparison information, the Schedule of Hartley's Proportionate Share of the Net Pension Liability and the Schedule of Hartley's contributions on pages 25 through 29 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2016, on our consideration of City of Hartley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hartley's internal control over financial reporting and compliance.

Hungelman, Putzier & Co., PLLC

February 28, 2016

CITY OF HARTLEY  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

Exhibit A

Functions/Programs:	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 276,061	\$ 76,064	\$ 37,088	\$ -	\$ (162,909)	\$ -	\$ (162,909)
Public works	283,868	32,021	173,859	-	(77,988)	-	(77,988)
Culture and recreation	191,707	28,894	4,755	-	(158,058)	-	(158,058)
Community and economic development	174,597	-	6,166	-	(168,431)	-	(168,431)
General government	95,579	735	-	-	(94,844)	-	(94,844)
Debt service	38,690	-	-	-	(38,690)	-	(38,690)
Total governmental activities	<u>1,060,502</u>	<u>137,714</u>	<u>221,868</u>	<u>-</u>	<u>(700,920)</u>	<u>-</u>	<u>(700,920)</u>
Business-type activities:							
Water	421,351	426,481	500	-	-	5,630	5,630
Sewer	572,014	227,171	888	-	-	(343,955)	(343,955)
Electric	1,571,274	1,808,377	1,450	-	-	238,553	238,553
Gas	758,834	940,563	5,539	-	-	187,268	187,268
Solid Waste	151,276	170,131	-	-	-	18,855	18,855
Consumer Deposit	13,480	15,765	-	-	-	2,285	2,285
Cable	124,561	112,807	250	-	-	(11,504)	(11,504)
Total business-type activities	<u>3,612,790</u>	<u>3,701,295</u>	<u>8,627</u>	<u>-</u>	<u>-</u>	<u>97,132</u>	<u>97,132</u>
Total	<u>\$ 4,673,292</u>	<u>\$ 3,839,009</u>	<u>\$ 230,495</u>	<u>\$ -</u>	<u>(700,920)</u>	<u>97,132</u>	<u>(603,788)</u>
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					386,883	-	386,883
Tax increment financing					264,459	-	264,459
Local option sales tax					149,258	-	149,258
Unrestricted interest on investments					18,754	29,869	48,623
Sale of assets					65,922	-	65,922
Miscellaneous					77,229	-	77,229
Transfers					(102,430)	102,430	-
Total general receipts and transfers					<u>860,075</u>	<u>132,299</u>	<u>992,374</u>
Change in cash basis net position					159,155	229,431	388,586
Cash basis net position beginning of year					<u>1,549,335</u>	<u>2,194,354</u>	<u>3,743,689</u>
Cash basis net position end of year					<u>\$ 1,708,490</u>	<u>\$ 2,423,785</u>	<u>\$ 4,132,275</u>

(continued)

CITY OF HARTLEY  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

Exhibit A  
(continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Charges for	Operating	Capital	Governmental	Business Type	
	Disbursements	Services	Grants and Contributions	Grants and Contributions	Activities	Total
Cash Basis Net Position						
Restricted:						
Nonexpendable:						
Cemetery perpetual care				\$ 95,672	\$ -	\$ 95,672
Expendable:						
Streets				249,676	-	249,676
Tax increment financing projects				270,157	-	270,157
Debt service				26,645	628,695	655,340
Other purposes				355,201	-	355,201
Unrestricted				711,139	1,795,090	2,506,229
Total cash basis net position				<u>\$ 1,708,490</u>	<u>\$ 2,423,785</u>	<u>\$ 4,132,275</u>

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

Exhibit B

	General	Special Revenue			Nonmajor	Total
		Road Use Tax	Local Option Sales Tax	Tax Increment Financing		
Receipts:						
Property tax	\$ 240,275	\$ -	\$ -	\$ -	\$ 146,608	\$ 386,883
Tax increment financing	-	-	-	264,459	-	264,459
Other city tax	-	-	149,258	-	-	149,258
Licenses and permits	1,745	-	-	-	-	1,745
Use of money and property	57,007	-	-	-	1,875	58,882
Intergovernmental	43,244	173,859	-	-	-	217,103
Charges for services	94,050	-	-	-	-	94,050
Miscellaneous	141,140	-	-	-	6,567	147,707
Total receipts	<u>577,461</u>	<u>173,859</u>	<u>149,258</u>	<u>264,459</u>	<u>155,050</u>	<u>1,320,087</u>
Disbursements:						
Operating:						
Public safety	258,177	-	-	-	17,884	276,061
Public works	76,211	194,935	-	-	12,722	283,868
Culture and recreation	154,297	-	-	-	37,410	191,707
Community and economic development	1,200	-	-	-	173,397	174,597
General government	91,048	-	-	-	4,531	95,579
Debt service	-	-	-	-	38,690	38,690
Total disbursements	<u>580,933</u>	<u>194,935</u>	<u>-</u>	<u>-</u>	<u>284,634</u>	<u>1,060,502</u>
Excess (deficiency) of receipts over disbursements	<u>(3,472)</u>	<u>(21,076)</u>	<u>149,258</u>	<u>264,459</u>	<u>(129,584)</u>	<u>259,585</u>
Other financing sources (uses):						
Proceeds from sale of assets	-	2,000	-	-	-	2,000
Operating transfers in	238,445	-	-	-	151,592	390,037
Operating transfers out	-	-	(141,592)	(251,049)	(99,826)	(492,467)
Total other financing sources (uses)	<u>238,445</u>	<u>2,000</u>	<u>(141,592)</u>	<u>(251,049)</u>	<u>51,766</u>	<u>(100,430)</u>
Net change in cash balances	234,973	(19,076)	7,666	13,410	(77,818)	159,155
Cash balances beginning of year	<u>476,166</u>	<u>268,752</u>	<u>158,116</u>	<u>256,747</u>	<u>389,554</u>	<u>1,549,335</u>
Cash balances end of year	<u>\$ 711,139</u>	<u>\$ 249,676</u>	<u>\$ 165,782</u>	<u>\$ 270,157</u>	<u>\$ 311,736</u>	<u>\$ 1,708,490</u>

(Continued)

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

Exhibit B  
 (Continued)

	General	Road Use Tax	Local Option Sales Tax	Tax Increment Financing	Nonmajor	Total
Cash Basis Fund Balances						
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ 95,672	\$ 95,672
Restricted for:						
Debt service	-	-	-	-	26,645	26,645
Tax increment financing	-	-	-	270,157	-	270,157
Streets	-	249,676	-	-	-	249,676
Other purposes	-	-	165,782	-	189,419	355,201
Assigned for equipment	187,354	-	-	-	-	187,354
Assigned for capital improvements	50,000	-	-	-	-	50,000
Unassigned	473,785	-	-	-	-	473,785
Total cash basis fund balances	<u>\$ 711,139</u>	<u>\$ 249,676</u>	<u>\$ 165,782</u>	<u>\$ 270,157</u>	<u>\$ 311,736</u>	<u>\$ 1,708,490</u>

See notes to financial statements

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

Exhibit C

	Enterprise					
	Water	Electric	Gas	Sewer	Nonmajor	Total
Operating receipts:						
Use of money and property	\$ -	\$ 1,849	\$ -	\$ -	\$ 940	\$ 2,789
Charges for services	422,210	1,796,584	939,310	224,231	165,789	3,548,124
Miscellaneous	4,771	11,394	6,792	3,828	132,224	159,009
Total operating receipts	426,981	1,809,827	946,102	228,059	298,953	3,709,922
Operating disbursements:						
Business type activities	315,048	1,393,254	758,834	215,784	175,780	2,858,700
Excess of operating receipts over operating disbursements	111,933	416,573	187,268	12,275	123,173	851,222
Non-operating receipts (disbursements)						
Interest on investments	3,819	13,924	6,003	504	5,622	29,872
Debt service	(106,303)	(178,020)	-	(356,230)	(113,540)	(754,093)
Net non-operating receipts (disbursements)	(102,484)	(164,096)	6,003	(355,726)	(107,918)	(724,221)
Excess (deficiency) of receipts over disbursements	9,449	252,477	193,271	(343,451)	15,255	127,001
Transfers in	-	146,184	-	347,865	-	494,049
Transfers out	-	(348,259)	(43,360)	-	-	(391,619)
	-	(202,075)	(43,360)	347,865	-	102,430
Net change in cash balances	9,449	50,402	149,911	4,414	15,255	229,431
Cash balances beginning of year	227,251	1,086,307	404,244	40,389	436,163	2,194,354
Cash balances end of year	<u>\$ 236,700</u>	<u>\$ 1,136,709</u>	<u>\$ 554,155</u>	<u>\$ 44,803</u>	<u>\$ 451,418</u>	<u>\$ 2,423,785</u>
Cash Basis Fund Balances						
Restricted for debt service	\$ 84,570	\$ 426,233	\$ -	\$ 1,664	\$ 116,228	\$ 628,695
Unrestricted	152,130	710,476	554,155	43,139	335,190	1,795,090
Total cash basis fund balances	<u>\$ 236,700</u>	<u>\$ 1,136,709</u>	<u>\$ 554,155</u>	<u>\$ 44,803</u>	<u>\$ 451,418</u>	<u>\$ 2,423,785</u>

See notes to financial statements

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hartley is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1888 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Hartley has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Joint Ventures - City of Hartley has a 54% interest in a joint venture with City of Sanborn to provide garbage collection service. The cities participate in the collection of garbage, which is under the general management of one representative of each City Council. The following information summarizes the activity of the joint venture through June 30, 2015:

Receipts:	
Contributions from other governments:	
City of Hartley	\$ 81,000
City of Sanborn	73,600
Interest	117
	<hr/> 154,717
Disbursements:	
Salaries	68,758
Benefits	33,587
Workers compensation insurance	8,446
Property insurance	5,702
Diesel fuel	19,661
Truck maintenance and repairs	17,826
Miscellaneous	1,234
	<hr/> 155,213
Net	(496)
Balance, beginning of year	5,076
Balance, end of year	<hr/> \$ 4,580

City of Hartley has a 54% interest of the assets, property and equipment, equity, and net income.



CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity - (Continued)

City of Hartley also has a 32.6% interest in Community Cable Television Agency of O'Brien County, a joint venture with the Cities of Paullina, Primghar, and Sanborn to provide cable television, telephone, and internet services. The cities participate in providing services, which is under the general management of one representative of each City Council. The City's share of equity in this organization as of June 30, 2014, the latest year available, is \$324,695.

Jointly Governed Organizations -The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: O'Brien County Emergency Management Commission, O'Brien County E911 Service Board, O'Brien County Assessor's Conference Board, and Northwest Iowa Area Solid Waste Agency. Payments made to Northwest Iowa Area Solid Waste Agency during the year ended June 30, 2015, were \$30,696.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

*Nonexpendable restricted net position* is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and, (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for monies received to be used for community betterment.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's natural gas system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting – (Continued)

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public works function.

2. CASH

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

2. CASH – (Continued)

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3, as amended by Statement 40.

The City had investments in the Iowa Public Agency Investment Trust valued at \$4,923 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. NOTES PAYABLE

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending	Revenue Notes		General Obligation Notes		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2016	414,000	59,912	25,000	13,910	439,000	73,822
2017	352,000	50,145	25,000	13,097	377,000	63,242
2018	151,000	41,366	26,000	12,285	177,000	53,651
2019	274,000	36,638	27,000	11,440	301,000	48,078
2020	123,000	28,309	28,000	10,663	151,000	38,972
2021-2025	676,000	93,250	155,000	38,512	831,000	131,762
2026-2029	254,000	20,962	142,000	11,700	396,000	32,662
	<u>\$ 2,244,000</u>	<u>\$ 330,582</u>	<u>\$ 428,000</u>	<u>\$ 111,607</u>	<u>\$ 2,672,000</u>	<u>\$ 442,189</u>

Revenue Notes

Water

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$400,000 and \$1,000,000 in water revenue notes issued in November, 2003 and July, 2009. Proceeds from the notes provided financing for constructing improvements and extensions to the water system. The notes are payable solely from water customer net receipts and are payable through 2018 and 2029, respectively. The total principal and interest remaining to be paid on the bonds is \$1,058,370. For the current year, principal and interest paid and total customer net receipts were \$103,785 and \$111,933 respectively.

Sewer

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,732,000 in sewer revenue notes issued in July and December, 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the notes is \$1,162,790. For the current year, principal and interest paid and total customer net receipts were \$354,210 and \$12,275 respectively.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

3. NOTES PAYABLE - (Continued)

Electric

The city has pledged future electric customer receipts, net of specified operating disbursements, to repay \$775,000 in electric revenue refunding bonds issued in June, 2011. Proceeds from the notes provided financing to retire the outstanding balance, on the call date of August 1, 2011, of \$860,000 of the \$1,900,000 electric revenue capital loan notes issued in February, 2001. The notes are payable solely from electric customer net receipts and are payable through 2017. The total principal and interest remaining to be paid on the notes is \$280,437. For the current year, principal and interest paid and total customer net receipts were \$177,520 and \$416,573 respectively.

Telecommunications

The city has pledged future telecommunication customer receipts, net of specified operating disbursements, to repay \$765,000 in revenue refunding bonds issued in June, 2011. Proceeds from the notes provided financing to retire the outstanding balance of the previous telecommunications revenue capital loan notes issued March 1, 2004. The notes are payable solely from telecommunication customer net receipts and are payable through 2019. The total principal and interest remaining to be paid on the notes is \$389,876. For the current year, principal and interest paid and total customer net receipts were \$113,040 and \$102,032 respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate sewer, electric, water, and telecommunication revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- C. The City is to establish separate Electric, Water, and Telecommunication, Principal and Interest Reserve Accounts into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$77,500 for electric, \$76,500 for telecommunications, and \$40,000 for water.
- D. Additional monthly transfers of \$1,650 to the Electric Improvement Fund and \$1,000 to the Water Improvement Fund shall be made until the sum of \$150,000 and \$36,000 has been accumulated, respectively. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extensions to the system.

4. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2015, primarily relating to the Enterprise Funds, is as follows:

Vacation	\$ 27,708
Sick Leave	178,776
Total	<u>\$ 206,484</u>

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

4. COMPENSATED ABSENCES – (Continued)

Sick leave is payable when used or upon retirement or death. If paid upon retirement or death, the total accumulated hours are paid at the then effective hourly rate for that employee. This liability has been computed based on rates of pay in effect at June 30, 2015.

5. OPERATING LEASE

The city leases a copier system. Rental expense incurred for this lease was \$3,360 for the year ended June 30, 2015. Minimum amounts payable under this operating lease are as follows:

<u>Year</u> <u>Ending</u> <u>June 30</u>	
2016	3,360
2017	2,240

6. PENSION PLANS

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

6. PENSION PLANS – (Continued)

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$62,531

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$318,955. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.0080424 percent, which was a decrease of 0.0005856 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$28,329, \$19,015 and \$160,640 respectively.

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2012)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership program.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

6. PENSION PLANS – (Continued)

Actuarial Assumptions – (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15%	6.76
Private Equity	13%	11.34
Real Estate	8%	3.52
Core Plus Fixed Income	28%	2.06
Credit Opportunities	5%	3.67
TIPS	5%	1.92
Other Real Assets	2%	6.27
Cash	<u>1%</u>	(0.69)
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease 6.5%</u>	<u>Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
City's proportionate share of the net pension liability	681,477	318,955	13,029

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at [www.ipers.org](http://www.ipers.org).



CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

7. INTERGOVERNMENTAL AGREEMENTS

The City has entered into an agreement with Northwest Iowa Area Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste from within the City. Payments under this agreement were \$30,696 for the year ended June 30, 2015.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post-closure costs to the agency have been estimated at \$3,491,198 as of June 30, 2014, which is the latest information available, and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2014, deposits of \$1,656,370 are held for these purposes. No estimate has been made regarding the effect of future assessments to the City.

8. EQUITY IN COOPERATIVE

City of Hartley is a member of the Missouri Basin Municipal Electric Cooperative Association. The City's share of equity in this cooperative at June 30, 2015, consists of the following:

Transmission capacity	\$ 312,622
Members' advances for transmission capacity	247,740
Other members' capital	27,635
Membership	<u>100</u>
	<u>\$ 588,097</u>

Transmission Capacity - Transmission capacity is stated at cost and consists of contributions made under the Transmission Agreement for the NIPCO transmission system. Transmission capacity is being amortized on a straight-line basis over thirty-five years.

Members' Advances for Transmission Capacity - Members' advances for transmission capacity consist of contributions by the members and net interest earned on investments allocated to the members. These advances from the participating Transmission Members are being held for future transmission capacity contributions by the Association in its capacity as agent for these members.

Other Members' Capital - Other members' capital consists of patronage dividends declared by NIPCO, but unpaid.

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees, and their spouses. There are 16 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$552 for single coverage, \$1,131 for spouse only coverage, \$1,042 for employee and child only coverage, and \$1,695 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2015, the City contributed \$224,054 and plan members eligible for benefits contributed \$7,079 to the plan.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2015, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 15,000
	Nonmajor governmental funds	99,826
	Enterprise:	
	Electric	80,259
	Gas	43,360
		<u>238,445</u>
Nonmajor governmental funds	Special Revenue:	
	Local Option Sales Tax	126,592
	Tax increment financing	25,000
		<u>151,592</u>
Enterprise:	Special Revenue:	
Sewer	Tax increment financing	79,865
	Enterprise	
	Electric	268,000
		<u>347,865</u>
Electric	Special Revenue:	
	Tax increment financing	146,184
Total		<u>\$ 884,086</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

12. PROMISSORY NOTES

On April 6, 1998, City of Hartley received two promissory notes from Hartley Housing Associates, Limited Partnership, in the amounts of \$40,000 and \$30,000 with interest at two percent and one percent, respectively. Repayment terms are \$2,049 and \$2,164 annually respectively, beginning May 1, 1999, with final payment coming due on May 1, 2013. However, because of limited "surplus cash" available there has only been one payment made on each of these notes since inception. The note agreement does allow this to occur but does stipulate that any unpaid portion shall accrue interest. These notes are secured by mortgages on residential lots owned by the borrower. The funds are to be used to develop affordable rental housing.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

13. ASSISTED LIVING FACILITY REVENUE BONDS

The City has approved issuing up to \$2,500,000 of assisted living facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa; \$906,363 is outstanding at June 30, 2015. The bonds and related interest are payable solely from the revenues of Community Memorial Health Center Association and do not constitute liabilities of the City.

14. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials or employees totaling \$9,914 during the year ended June 30, 2015.

15. LITIGATION

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. City officials believe the outcome of these matters will not have a material adverse effect on the City's financial statements.

## OTHER INFORMATION

CITY OF HARTLEY  
BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –  
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
OTHER INFORMATION  
YEAR ENDED JUNE 30, 2015

	Governmental	Proprietary		Budgeted Amounts		Final To Total Variance
	Funds	Funds				
	Actual	Actual	Total	Original	Final	
Receipts:						
Property tax	\$ 386,883	\$ -	\$ 386,883	\$ 379,527	\$ 379,527	\$ 7,356
Tax increment financing	264,459	-	264,459	264,635	264,635	(176)
Other city tax	149,258	-	149,258	142,000	142,000	7,258
Licenses and permits	1,745	-	1,745	3,575	3,575	(1,830)
Use of money and property	58,882	32,661	91,543	96,178	96,178	(4,635)
Intergovernmental	217,103	-	217,103	224,910	224,910	(7,807)
Charges for service	94,050	3,548,124	3,642,174	3,490,868	3,490,868	151,306
Miscellaneous	147,707	159,009	306,716	203,303	203,303	103,413
Total receipts	1,320,087	3,739,794	5,059,881	4,804,996	4,804,996	254,885
Disbursements:						
Public safety	276,061	-	276,061	325,470	325,470	49,409
Public works	283,868	-	283,868	246,635	246,635	(37,233)
Culture and recreation	191,707	-	191,707	210,548	210,548	18,841
Community and economic development	174,597	-	174,597	126,200	199,200	24,603
General government	95,579	-	95,579	170,985	170,985	75,406
Debt service	38,690	-	38,690	38,690	38,690	-
Business type activities	-	3,612,793	3,612,793	3,750,803	4,018,803	406,010
Total disbursements	1,060,502	3,612,793	4,673,295	4,869,331	5,210,331	537,036
Excess (deficiency) of receipts over disbursements	259,585	127,001	386,586	(64,335)	(405,335)	791,921
Other financing sources, net	(100,430)	102,430	2,000	-	-	2,000
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	159,155	229,431	388,585	(64,335)	(405,335)	793,920
Balance, beginning of year	1,549,335	2,194,354	3,743,689	3,165,670	3,165,670	578,019
Balance, end of year	\$ 1,708,490	\$ 2,423,785	\$ 4,132,274	\$ 3,101,335	\$ 2,760,335	\$ 1,371,939

See accompanying independent auditor's report.

CITY OF HARTLEY  
NOTES TO OTHER INFORMATION  
BUDGETARY REPORTING  
JUNE 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Permanent Fund, the Debt Service Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2015 the budget was amended one time which increased budgeted disbursements by \$341,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public works function.

CITY OF HARTLEY  
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST FISCAL YEAR \*  
OTHER INFORMATION  
JUNE 30, 2015

	<u>2015</u>
City's proportion of the net pension liability	0.0080424%
City's proportionate share of the net pension liability	\$ 318,955
City's covered-employee payroll	\$ 680,115
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	46.90%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

CITY OF HARTLEY  
SCHEDULE OF CITY CONTRIBUTIONS  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS  
OTHER INFORMATION  
JUNE 30, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contributions	\$ 62,531	\$ 62,061	\$ 58,309	\$ 50,092	\$ 42,497	\$ 43,220	\$ 38,807	\$ 35,079	\$ 33,397	\$ 33,184
Contributions in relation to the statutorily required contribution	<u>_(62,531)</u>	<u>_(62,061)</u>	<u>_(58,309)</u>	<u>_(50,092)</u>	<u>_(42,497)</u>	<u>_(43,220)</u>	<u>_(38,807)</u>	<u>_(35,079)</u>	<u>_(33,397)</u>	<u>_(33,184)</u>
Contribution of deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 688,079	\$ 680,115	\$ 654,157	\$ 603,631	\$ 578,882	\$ 619,178	\$ 583,765	\$ 548,296	\$ 535,851	\$ 532,094
Contributions as a percentage of covered-employee payroll	9.09%	9.13%	8.91%	8.30%	7.34%	6.98%	6.65%	6.40%	6.23%	6.24%

See accompanying independent auditor's report.



CITY OF HARTLEY  
NOTES TO OTHER INFORMATION – PENSION LIABILITY  
JUNE 30, 2015

Changes of Benefit Terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

## SUPPLEMENTARY INFORMATION

CITY OF HARTLEY  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

Schedule 1

	Special Revenue				Permanent		
	Employee	Economic	Owner	Library	Debt	Cemetery	
	Benefits	Development	Occupied	Expendable	Service	Perpetual	Total
			Rehab	Trust		Care	
Receipts:							
Property tax	\$ 146,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 146,608
Use of money and property	-	-	-	1,875	-	-	1,875
Miscellaneous	-	6,167	-	-	-	400	6,567
Total receipts	146,608	6,167	-	1,875	-	400	155,050
Disbursements:							
Operating:							
Public Safety	17,884	-	-	-	-	-	17,884
Public Works	12,722	-	-	-	-	-	12,722
Culture and recreation	9,054	-	-	28,356	-	-	37,410
Community and economic development	199	173,177	21	-	-	-	173,397
General government	4,531	-	-	-	-	-	4,531
Debt Service	-	-	-	-	38,690	-	38,690
Total disbursements	44,390	173,177	21	28,356	38,690	-	284,634
Excess (deficiency) of receipts over disbursements	102,218	(167,010)	(21)	(26,481)	(38,690)	400	(129,584)
Other financing sources (uses):							
Transfers in	-	151,592	-	-	-	-	151,592
Transfers out	(91,473)	-	-	(8,353)	-	-	(99,826)
Total other financing sources and uses	(91,473)	151,592	-	(8,353)	-	-	51,766
Net change in cash balances	10,745	(15,418)	(21)	(34,834)	(38,690)	400	(77,818)
Cash balances beginning of year	36,419	32,959	9,951	149,618	65,335	95,272	389,554
Cash balances end of year	\$ 47,164	\$ 17,541	\$ 9,930	\$ 114,784	\$ 26,645	\$ 95,672	\$ 311,736
Cash Basis Fund Balances							
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 95,672	\$ 95,672
Restricted for:							
Debt service	-	-	-	-	26,645	-	26,645
Other purposes	47,164	17,541	9,930	114,784	-	-	189,419
Total cash basis fund balances	\$ 47,164	\$ 17,541	\$ 9,930	\$ 114,784	\$ 26,645	\$ 95,672	\$ 311,736

See accompanying independent auditor's report

CITY OF HARTLEY  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

Schedule 2

	Enterprise			
	Solid	Consumer		Total
	Waste	Deposit	Cable	
Operating Receipts:				
Use of money and property	\$ 940	\$ -	\$ -	\$ 940
Charges for services	165,789	-	-	165,789
Miscellaneous	3,402	15,765	113,057	132,224
Total operating receipts	170,131	15,765	113,057	298,953
Operating disbursements:				
Business type activities	151,276	13,480	11,024	175,780
Excess of operating receipts over operating disbursements	18,855	2,285	102,033	123,173
Non-operating receipts				
Interest on investments	2,033	-	3,589	5,622
Debt service	-	-	(113,540)	(113,540)
Net non-operating revenue (disbursements)	2,033	-	(109,951)	(107,918)
Net change in cash balances	20,888	2,285	(7,918)	15,255
Cash balances beginning of year	155,273	35,996	244,894	436,163
Cash balances end of year	<u>\$ 176,161</u>	<u>\$ 38,281</u>	<u>\$ 236,976</u>	<u>\$ 451,418</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	\$ -	\$ 116,228	\$ 116,228
Unrestricted	176,161	38,281	120,748	335,190
Total cash basis fund balances	<u>\$ 176,161</u>	<u>\$ 38,281</u>	<u>\$ 236,976</u>	<u>\$ 451,418</u>

See accompanying independent auditor's report

CITY OF HARTLEY  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2015

Schedule 3

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed or Forgiven During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
Revenue Notes:								
Water	November 1, 2003	4.60% - 5.20%	\$ 400,000	\$ 130,000	\$ -	\$ 30,000	\$ 100,000	\$ 6,575
Sewer	July 20, 2004	1.75	1,300,000	808,000	-	63,000	745,000	19,190
Sewer	December 2, 2004	3.00	432,000	268,000	-	268,000	-	4,020
Water	July 1, 2009	3.00	1,000,000	807,000	-	43,000	764,000	24,210
Electric refunding	June 1, 2011	1.00 - 2.40	775,000	445,000	-	170,000	275,000	7,520
Telecommunication refunding	June 1, 2011	1.30 - 3.45	765,000	460,000	-	100,000	360,000	13,040
Total			<u>\$ 4,672,000</u>	<u>\$ 2,918,000</u>	<u>\$ -</u>	<u>\$ 674,000</u>	<u>\$ 2,244,000</u>	<u>\$ 74,555</u>
General Obligation Notes:								
Water	July 1, 2009	3.00	<u>\$ 560,000</u>	<u>\$ 452,000</u>	<u>\$ -</u>	<u>\$ 24,000</u>	<u>\$ 428,000</u>	<u>\$ 13,560</u>

See accompanying independent auditor's report

CITY OF HARTLEY  
NOTE MATURITIES  
JUNE 30, 2015

Schedule 4

Revenue Bonds											
Year	Water Issued November 1, 2003		Sewer Issued July 20, 2004		Water Issued July 1, 2009		Electric Refunding Issued June 1, 2011		Telecom Refunding Issued June 1, 2011		
Ending June 30	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2016	5.00	\$ 30,000	1.75	\$ 65,000	3.00	\$ 44,000	2.10	\$ 175,000	2.50	\$ 100,000	\$ 414,000
2017	5.10	35,000	1.75	67,000	3.00	45,000	2.40	100,000	2.85	105,000	352,000
2018	5.20	35,000	1.75	69,000	3.00	47,000	-	-	3.45	105,000	256,000
2019	-	-	1.75	71,000	3.00	48,000	-	-	3.45	50,000	169,000
2020	-	-	1.75	73,000	3.00	50,000	-	-	-	-	123,000
2021	-	-	1.75	75,000	3.00	52,000	-	-	-	-	127,000
2022	-	-	1.75	78,000	3.00	53,000	-	-	-	-	131,000
2023	-	-	1.75	80,000	3.00	55,000	-	-	-	-	135,000
2024	-	-	1.75	82,000	3.00	57,000	-	-	-	-	139,000
2025	-	-	1.75	85,000	3.00	59,000	-	-	-	-	144,000
2026	-	-	-	-	3.00	61,000	-	-	-	-	61,000
2027	-	-	-	-	3.00	62,000	-	-	-	-	62,000
2028	-	-	-	-	3.00	64,000	-	-	-	-	64,000
2029	-	-	-	-	3.00	67,000	-	-	-	-	67,000
		<u>\$ 100,000</u>		<u>\$ 745,000</u>		<u>\$ 764,000</u>		<u>\$ 275,000</u>		<u>\$ 360,000</u>	<u>\$ 2,244,000</u>

General Obligation Notes

Water		
Year	Issued July 1, 2009	
Ending June 30	Interest Rates	Amount
2016	3.00	\$ 25,000
2017	3.00	25,000
2018	3.00	26,000
2019	3.00	27,000
2020	3.00	28,000
2021	3.00	29,000
2022	3.00	30,000
2023	3.00	31,000
2024	3.00	32,000
2025	3.00	33,000
2026	3.00	34,000
2027	3.00	35,000
2028	3.00	36,000
2029	3.00	37,000
		<u>\$ 428,000</u>

See accompanying independent auditor's report

CITY OF HARTLEY  
SCHEDULE OF RECEIPTS BY SOURCE AND  
DISBURSEMENTS BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST TEN YEARS

Schedule 5

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Receipts:										
Property tax	\$ 386,883	\$ 383,938	\$ 358,166	\$ 351,174	\$ 342,427	\$ 302,921	\$ 285,470	\$ 343,191	\$ 331,406	\$ 257,032
Tax increment financing	264,459	233,628	230,918	260,922	190,144	189,906	197,368	129	51,597	252,592
Other city tax	149,258	152,658	151,697	149,112	148,085	106,729	174,170	144,957	133,908	105,092
Licenses and permits	1,745	1,853	1,284	4,435	3,565	4,295	3,567	5,812	4,822	2,504
Use of money and property	58,882	60,203	61,367	61,638	47,418	49,222	47,659	82,017	92,321	71,301
Intergovernmental	217,103	247,172	247,850	251,754	315,508	194,738	324,980	207,138	313,154	291,785
Charges for service	94,050	68,344	76,031	81,780	81,091	96,188	92,768	80,276	81,220	76,163
Special assessments	-	-	-	-	335	4,522	7,918	8,844	8,751	10,920
Miscellaneous	147,707	119,572	94,499	71,766	54,489	23,155	43,354	37,964	20,428	36,494
Total	<u>\$ 1,320,087</u>	<u>\$ 1,267,368</u>	<u>\$ 1,221,812</u>	<u>\$ 1,232,581</u>	<u>\$ 1,183,062</u>	<u>\$ 971,676</u>	<u>\$ 1,177,254</u>	<u>\$ 910,328</u>	<u>\$ 1,037,607</u>	<u>\$ 1,103,883</u>
Disbursements:										
Operating:										
Public safety	\$ 276,061	\$ 299,243	\$ 304,004	\$ 260,136	\$ 254,172	\$ 277,500	\$ 263,584	\$ 247,013	\$ 320,624	\$ 198,068
Public works	283,868	229,012	220,751	221,535	247,237	241,661	293,157	270,278	157,003	121,779
Culture and recreation	191,707	190,043	197,565	195,145	173,987	202,073	326,516	177,783	171,010	186,992
Community and economic development	174,597	172,580	190,784	159,956	169,291	126,477	526,164	218,560	204,248	137,104
General government	95,579	103,816	94,732	94,302	70,400	86,688	93,356	65,888	77,679	82,092
Debt service	38,690	188,868	122,211	120,210	123,135	88,798	56,470	58,660	55,580	57,460
Total	<u>\$ 1,060,502</u>	<u>\$ 1,183,562</u>	<u>\$ 1,130,047</u>	<u>\$ 1,051,284</u>	<u>\$ 1,038,222</u>	<u>\$ 1,023,197</u>	<u>\$ 1,559,247</u>	<u>\$ 1,038,182</u>	<u>\$ 986,144</u>	<u>\$ 783,495</u>

# HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council  
Hartley, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 28, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hartley's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hartley's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Hartley's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be material weaknesses.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hartley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### City of Hartley's Responses to the Findings

City of Hartley's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Hartley's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hummelman, Putzier & Co., PLLC*  
February 28, 2016

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2015

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to seek ways to obtain maximum internal control even though there is a limited number of employees.

Conclusion – Response accepted.

- (B) Financial Reporting – During our audit, we noted the City does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with the cash basis of accounting. As is inherent in most organizations of this size, the City has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply the cash basis of accounting in preparing the financial statements and the related disclosures.

Recommendation –The City should consider obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses.

Response – The City will review materials to better apply the cash basis accounting.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public works function. Also, disbursements in the community and economic development function exceeded budgeted amounts prior to the amendment. Chapter 384.20 of the Code of Iowa states in part that public moneys may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will work to amend the budget before disbursements are made.

Conclusion – Response accepted.

- (2) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2015

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kevin Snider, Council Member, owner of Snider Auto Care Center	Repairs/service	\$2,039
Sheri Tewes, Deputy Clerk, mother owns Fanning Construction	Labor and materials	\$2,588
Ron Hengeveld, Council Member, owner of Hengeveld Construction	Labor and materials	\$5,098
Mary Westphalen, Council Member, Husband owns Burley's Appliance	Microwave	\$189

In accordance with Chapter 362.5(3) (k) of the Code of Iowa, the transactions with Council Members Snider and Westphalen do not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year. The remaining transactions may represent a conflict of interest since the cumulative amount was more than \$2,500 during the fiscal year.

Recommendation - The Code does allow the City to transact business with City officers or employees in excess of \$2,500 but only if the contract is made subject to a competitive bid in writing, publicly invited, and opened. The City should consult their attorney to determine that they are in compliance with the Code of Iowa.

Response – The City will work to be compliant when contracting with city employees or city officials.

Conclusion – Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2015

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

- (8) Revenue Bonds – The City has established the sinking, reserve, and improvement accounts as required by the various revenue note resolutions. However, the sewer sinking fund account does not have a sufficient balance as of June 30, 2015. Also, the provisions of the sewer revenue bond resolution require the City produce net operating revenues equal to at least 110% of the principal and interest on the bonds as they become due. For the year ended June 30, 2015, the City's sewer fund had net operating receipts of \$12,275.

Recommendation - The City should make the required transfers to the sewer sinking fund account until the account balance reaches the minimum required by the sewer revenue bond resolution. The City should also review utility rates to ensure the rates are adequate to produce the required net operating revenues.

Response – The City will make the required transfers to the sewer sinking fund and work to review sewer rates so they are adequate to produce the required net operating revenues.

Conclusion – Response accepted.

- (9) Excess Balances - The following funds have a balance at June 30, 2015, which is in excess of one year's expenditures:

General  
Special Revenue - Library Expendable Trust  
                            - Road Use Tax  
                            - Local Option Sales Tax

Recommendation - While it appears that these funds may have excessive balances, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – The City will work to reduce excessive balances.

Conclusion – Response accepted.

- (10) Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.